

VZCZCXRO9715
RR RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHHI #0649/01 1550946
ZNR UUUUU ZZH
R 030946Z JUN 08
FM AMEMBASSY HANOI
TO RUEHC/SECSTATE WASHDC 7929
INFO RUEHHM/AMCONSUL HO CHI MINH 4790
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHC/DEPT OF INTERIOR WASHINGTON DC
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 02 HANOI 000649

SIPDIS

E.O. 12958: N/A

TAGS: [EAID](#) [ECON](#) [SENV](#) [ENRG](#) [TRGY](#) [VM](#)

SUBJECT: VIETNAM'S OIL AND MINING COMPANIES EXTRACT REVENUES WHERE
THEY CAN FIND THEM

REF: (A) HANOI 2064 ("First Oil Refinery Takes Shape");

(B) HANOI 1865 ("In Vietnam The Future Is Coal")

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¶1. Summary: As rising domestic energy demands compel Vietnam's transition from exporter to net importer of crude oil and coal, state-run PetroVietnam (PVN) and the Vietnam National Coal-Mineral Industries Group (Vinacomin) are expanding their horizons. PetroVietnam, which expects a 140 percent increase in revenues in 2008 due to high oil prices, is expanding overseas exploration and production while Vinacomin is preparing to exploit Vietnam's bauxite reserves, the world's fourth largest, to compensate for diminishing coal exports. End summary.

PETROVIETNAM LOOKS ABROAD

¶2. PetroVietnam (PVN) Vice President of Finance Dr. Nguyen Ngoc Su (one of eleven vice presidents at PVN) told a visiting SFRC Staff Delegation on May 30 that domestic oil production in Vietnam is fading because of declining reserves at Bach Ho (White Tiger), the country's biggest oil field. Vietnam produced 16-18 million tons of crude oil in 2007 and exported virtually all of it, he said. Vietnam, which currently lacks refining capacity, imported all of its gasoline and other refined products in 2007, a total of 9 million tons. Rising domestic demand and the introduction of refining capacity means Vietnam will shift from a crude oil exporter to a net importer by 2015.

¶3. Dr. Su said near-term domestic oil production in Vietnam could fall or rise depending on the outcome of various territorial disputes, and he noted that Vietnam has disagreements with China, Malaysia, Thailand, and Indonesia. To make up for diminishing reserves at home, PVN is actively investing in overseas offshore production and exploitation in places such as Iraq and Kuwait (where it is the operator), Peru (where it holds a 100 percent interest in Block Z47), Indonesia, Cuba, Iran, Algeria, Mongolia, and Morocco, where PVN will build a \$600 million fertilizer plant.

¶4. Oil and gas revenues now comprise 25-30 percent of Vietnam's state budget, equivalent to 18-20 percent of GDP. PVN earned approximately \$80 billion in 2007 and expects to earn \$115-120 billion in 2008, a 140 percent increase year on year, due largely to the increase in oil prices. The company currently employs 26,000 people, the biggest SOE in Vietnam, and expects its workforce to rise to as many as 40,000 by 2010, he added.

¶5. Vietnam's first refinery, located in the Dung Quat district of central Quang Ngai Province, is expected to enter service in February 2009 with an annual refining capacity of 6.5 million tons of unleaded gas, diesel, kerosene, and jet fuel (Ref A). As well, construction is now underway on what will be Vietnam's second refinery, the \$6 billion Nghi Son Petrochemical Complex in northern

Thanh Hoa province (125 miles south of Hanoi), which will enter operation in 2013 with a projected refining capacity of 7-8 million tons per year. The GVN recently announced plans to build a third refinery in the Long Son District of southern Ba Ria-Vung Tau Province.

¶6. By 2010, PVN hopes to produce 24 million tons of oil and 17 billion cubic meters (bcm) of natural gas annually. Vietnam produced seven bcm of gas in 2007. Chevron recently announced that it had found at least 170 bcm of gas in the Malay Basin offshore southwest Vietnam - 30 bcm more than first believed. Much of Vietnam's substantial gas reserves are tied up in seemingly intractable territorial disputes in the South China Sea, however, so attaining these ambitious production targets may require a commercial or political settlement.

¶7. A May 23 agreement between PVN and Russia's Gazprom creates additional ties to a foreign partner, allowing for the exploration and development of natural gas deposits in four new blocks on the Vietnamese shelf. The agreement also provides for the establishment of a new joint venture that would allow PVN to participate in projects in Russia and third countries. According to a Russian Embassy official, it is hoped that the impact of the new gas venture in Vietnam will rival the VietSovpetro venture during the 1980s that brought thousands of Russian oil workers to Vietnam and has generated a steady stream of revenues to its Russian partner, Zarubezhneft.

WORLD'S FOURTH LARGEST BAUXITE RESERVES

¶8. Vietnam National Coal-Mineral Industries Group (Vinacomin), Vice President Nguyen Van Hai said Vinacomin and its 22 subsidiary companies mine 95 percent of Vietnam's annual coal production and currently exports about half of that. In 2007, Vietnam mined 41 million tons and exported 23.8 million tons of coal. The state-run

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group has now equitized all 22 of its sister companies although Vinacomin retains a 51 percent stake in each subsidiary, he said.

¶9. By 2010, as new coal-fired electricity plants come online, domestic demand will increase to 37 million tons per year while annual production will rise to 47 million tons, Hai said. Coal shipments to China have dropped by 32 percent Vinacomin plans to eliminate Chinese exports altogether in the near future. By 2012, Vietnam will shift from a coal exporter to a net importer (Ref B).

¶10. Vietnam has the world's fourth largest reserves of bauxite, estimated at 2,770 million tons, with most of it in the central province of Dak Nong on the border with Laos. Several of the world's largest aluminum production companies, including U.K. / Australia-based BHP Billiton, U.S.-based Alcoa, Russia's RUSAL, and China's CHALCO, are currently engaged in negotiations with Vinacomin and the GVN to establish bauxite mining and alumina refining projects that could be worth as much as \$10 billion.

¶11. The GVN is apparently poised to grant Alcoa up to a 40 percent stake in a major mining and refining venture. Vinacomin would hold a 51 percent stake in the project while 9 percent would be sold to the public. The venture would mine enough bauxite to refine 600,000 tons of alumina per year, 100 percent of which the GVN would export for aluminum production. The price of aluminum has increased significantly over the last several years and Hai indicated that alumina exports could help Vinacomin recoup much of the revenue lost because of Vietnam's diminishing coal exports.

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